

10
ASIA PACIFIC ECONOMIC COOPERATION (APEC)
AND U.S. POLICY TOWARD ASIA

Y 4.F 76/1:AS 4/29

Asia Pacific Economic Cooperation (...

HEARING

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

NOVEMBER 15, 1993

Printed for the use of the Committee on Foreign Affairs



MAR 2 1994

U.S. GOVERNMENT PRINTING OFFICE

75-080 CC

WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-043383-5

103
ASIA PACIFIC ECONOMIC COOPERATION (APEC)
AND U.S. POLICY TOWARD ASIA

Y 4.F 76/1:AS 4/29

Asia Pacific Economic Cooperation (...

HEARING

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

NOVEMBER 15, 1993

Printed for the use of the Committee on Foreign Affairs



MAR 2 1994

U.S. GOVERNMENT PRINTING OFFICE

75-080 CC

WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-043383-5

COMMITTEE ON FOREIGN AFFAIRS

LEE H. HAMILTON, Indiana, *Chairman*

SAM GEJDENSON, Connecticut
TOM LANTOS, California
ROBERT G. TORRICELLI, New Jersey
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York
ENI F.H. FALEOMAVAEGA, American
Samoa
JAMES L. OBERSTAR, Minnesota
CHARLES E. SCHUMER, New York
MATTHEW G. MARTINEZ, California
ROBERT A. BORSKI, Pennsylvania
DONALD M. PAYNE, New Jersey
ROBERT E. ANDREWS, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. MCKINNEY, Georgia
MARIA CANTWELL, Washington
ALCEE L. HASTINGS, Florida
ERIC FINGERHUT, Ohio
PETER DEUTSCH, Florida
ALBERT RUSSELL WYNN, Maryland
DON EDWARDS, California
FRANK McCLOSKEY, Indiana
THOMAS C. SAWYER, Ohio
(Vacancy)

BENJAMIN A. GILMAN, New York
WILLIAM F. GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
TOBY ROTH, Wisconsin
OLYMPIA J. SNOWE, Maine
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
JAN MEYERS, Kansas
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRBACHER, California
DAVID A. LEVY, New York
DONALD A. MANZULLO, Illinois
LINCOLN DIAZ-BALART, Florida
EDWARD R. ROYCE, California

MICHAEL H. VAN DUSEN, *Chief of Staff*
RICHARD J. GARON, *Minority Chief of Staff*

CONTENTS

	Page
WITNESSES	
Hon. Joan E. Spero, Under Secretary for Economic and Agricultural Affairs, Department of State	4
Hon. Winston Lord, Assistant Secretary for East Asian and Pacific Affairs, Department of State	6
PREPARED STATEMENTS	
Hon. Maria Cantwell, a Representative in Congress from the State of Wash- ington	31
Hon. Joan E. Spero	33
Hon. Winston Lord	38

ASIA PACIFIC ECONOMIC COOPERATION (APEC) AND U.S. POLICY TOWARD ASIA

MONDAY, NOVEMBER 15, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to call, at 1:30 p.m., in room 2172, Rayburn House Office Building, Hon. Sam Gejdenson presiding.

Mr. GEJDENSON [presiding]. The committee will come to order.

The chairman has asked me to chair this hearing for the full committee.

In the 1980's, American exports to Asia and the Pacific Rim skyrocketed by 130 percent. U.S. exports to this region grew far quicker than our exports to Canada, the European Community, and Latin America. American companies now ignore the Asia/Pacific market at their own peril.

Given the increasing level of U.S. exports destined for the Asia/Pacific Rim, economic cooperation between countries in the region, including the United States, is critically important.

Today we will examine a relatively new organization designed to advance free and open trade in the region.

The Asia Pacific Economic Cooperation Forum was created in 1989, and now has 15 members, including the United States. The APEC countries produce 50 percent of the world's GNP, and 40 percent of the world's exports.

Given these statistics, it is clear that APEC's creation was long overdue.

Over the past 4 years, the groundwork has been laid for APEC to become an extremely important institution for the coordination of economic activities of APEC members, but in order to tackle the tough economic, trade, and investment issues of the 1990's, APEC needs to be further strengthened.

Given America's increasing trade deficits with key Asian countries, a strong multilateral trade forum is urgently needed.

The fifth meeting of APEC's Trade and Foreign Ministers will be held this week in Seattle, with the United States in the chair. Immediately following the ministerial meeting, President Clinton will host a first-ever gathering of APEC heads-of-state.

The Seattle meeting is a good opportunity for the United States to demonstrate its commitment to APEC and to strengthening America's economic ties to the Asia/Pacific region. Economics aside, the attendance of Chinese President Jiang Zemin at the Seattle meeting gives President Clinton an opening on human rights.

The Chinese Government must understand, at the highest level, that the PRC's MFN status will be withdrawn next year unless China significantly improves its record on human rights.

We are honored to have Joan Spero, Under Secretary of State for Economic and Agricultural Affairs; and Winston Lord will be joining us shortly, who is the Assistant Secretary for Asian and Pacific Affairs.

Before the committee takes testimony, we will hear from any of our colleagues who have an opening statement.

The gentleman from New York?

OPENING STATEMENT OF CONGRESSMAN ACKERMAN

Mr. ACKERMAN. Mr. Chairman, I am pleased that the committee is holding this timely hearing on APEC and U.S. policy toward Asia.

During 1992, U.S. trade with the Pacific region totaled \$344 billion. As I am sure everyone is aware, that figure is 50 percent greater than our trade with nations across the Atlantic.

As U.S. trade with the Pacific region continues to rise, it is no wonder that President Clinton has turned his attention to creating a new Pacific Community and has cited APEC as one of the building blocks of that community.

To further emphasize the importance of the Asia Pacific region to America's future, the President has organized a meeting of the leaders of APEC nations in Seattle later this week to discuss what can be done to bring down trade barriers and create more economic opportunities for the entire region.

APEC has progressed rapidly since the late eighties when a number of countries began to discuss the usefulness of a multilateral economic forum in which to discuss regional economic development and growth.

In 1991, at the Seoul ministerial meeting, APEC members began to flesh out the organization's commitment to more open trade and increasing economic collaboration.

That same meeting also produced an agreement which allowed the "three Chinas" to join, bringing APEC's membership to its present level of 15.

The 1992 ministerial meeting in Thailand led to the establishment of a small secretariat in Singapore to organize and coordinate the increasing work of the group and to institutionalize it.

An Eminent Persons Group, which met for the first time in March of this year, was established, consisting of a prominent non-governmental economics expert from 11 of the member countries, in order to give APEC a vision of Asia Pacific trade at the turn of the century and to try to identify issues and obstacles to enhanced regional economic cooperation.

It has been widely reported that the group will propose a wide-ranging program of trade facilitation and technical cooperation, further institutionalization of APEC to support regional integration, and the creation of a free trade area in the region.

Mr. Chairman, I believe that these hearings will demonstrate that the Congress supports the President in emphasizing that our economic future lies in the Asia Pacific region.

Thank you very much.

Mr. GEJDENSON. Are there other opening statements?
The gentlelady from Washington State?

OPENING STATEMENT OF CONGRESSWOMAN CANTWELL

Ms. CANTWELL. Thank you, Mr. Chairman.

I appreciate the opportunity to participate in these hearings today. Having just returned from Seattle last night or this morning, I can tell you that the city of Seattle is greatly prepared to host this conference and many of the delegates and their staffs and support organizations are already there and arriving.

Thank you very much, Mr. Chairman, and welcome, Ms. Spero and Mr. Lord.

The Asia-Pacific Economic Cooperation Conference is truly a historic opportunity; An opportunity to solidify relationships and enable members to share perspectives on regional trade, investment and political issues.

It is with a sense of pride and deep awareness of the significance of what the Asia Pacific Economic Cooperation Conference means for the future of our country that I participate in the hearing today. Pride, because the annual APEC ministerial meeting will be held in Seattle, Washington, November 17 through 19.

The United States will host and chair that meeting of 750 delegates from the 15 Pacific Rim economies, which are members of the organization.

The choice of Seattle as the location for this year's ministerial meeting is entirely appropriate. Washington State is the beachhead for trade with Asia and the Pacific Rim. Seattle is a major port participating in U.S. trade with the Asia Pacific region, and Washington State is the most trade reliant state in the nation.

The people, communities and businesses of Seattle have long recognized the importance of these economic and political relationships. When the APEC delegates arrive in Seattle, they will know that they arrive as partners in a vital economic undertaking.

The Asia Pacific Economic Cooperation Conference gives the United States a wonderful opportunity to present our vision of the future. A vision of closer economic and political cooperation where trade and geopolitical disputes are resolved through honest dialogue and open debate.

Fully one half of APEC's members represent the most successful economies in the world. Clearly, this dynamism and APEC's progress in focusing on trade liberalization and establishing formal and informal networks for dialogue suggest we can work together to resolve some of the most important issues of the day.

I applaud the President for convening the leaders summit and for seizing this opportunity to show our Pacific friends that the United States recognizes the dynamism of the economies of the Asia Pacific and the importance of their friendship.

The United States has a vested interest in helping to make APEC an effective regional economic organization. Once again, I applaud the administration for seizing the opportunity presented by APEC and I look forward to the testimony today from two key administration policymakers.

[The prepared statement of Ms. Cantwell appears at the conclusion of the hearing.]

Mr. GEJDENSON. Secretary Spero.

STATEMENT OF JOAN E. SPERO, UNDER SECRETARY FOR ECONOMIC AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE

Ms. SPERO. Thank you, Mr. Chairman and members of the committee. I am delighted to be able to speak to you today on the Asia-Pacific Economic Cooperation Forum and examine our strategy for building global economic relations in the post-cold war world.

I will submit a statement for the record and summarize the main points.

Mr. GEJDENSON. Without objection.

U.S. INTERESTS IN THE PACIFIC RIM

Ms. SPERO. The Asia-Pacific region, the fastest-growing, most economically dynamic region in the world, is critical to America's economic future. The Clinton administration is determined to seize the opportunities and meet the challenges that will face us in the Asia-Pacific region in the 21st century. That is why we are pleased that the United States will host the fifth APEC ministerial, to be chaired by Secretary Christopher in Seattle from November 17 to 19. That is why President Clinton has called for an unprecedented meeting of APEC economic leaders on November 20.

President Clinton has said that domestic economic renewal is his top policy priority. More than ever before, our domestic prosperity depends on our engagement in the global economy. Every billion dollars in U.S. exports creates about 20,000 American jobs. Increased exports are the best job creation program we have. In this context, there is no region more important to the United States than the Pacific Rim.

ECONOMIC SIGNIFICANCE OF ASIA-PACIFIC REGION

The region is growing more rapidly than any other part of the world. Thailand, Indonesia, Singapore, Korea, and Taiwan have grown on average over 7 percent for the last 5 years. The ASEAN economies are growing 3 times faster than OECD members. China has grown over 9 percent per year for the last decade.

Half of world growth in the nineties will be in the Asia-Pacific region. In the year 2000, the GNP of the 15-member economies of APEC will exceed that of the Group of 7 countries.

Over half of our total world trade today is with the Pacific region, half again as much as our trade with Europe and three times our trade with Latin America. More than 2.5 million U.S. jobs now depend on exports to East Asia. U.S. trade with the Asia Pacific region is expected to be double that with Europe by the end of the decade.

Growth has given rise to an Asian middle class and a large new consumer market. Ambitious development plans are creating a huge demand for infrastructure. China, Taiwan, and Hong Kong plan to spend over \$500 billion on infrastructure improvements by the year 2000. Asia will need to spend \$1 trillion to meet energy demands over the next 20 years.

The Asia-Pacific region also poses some of our greatest economic challenges. It is home to many of our toughest competitors. A significant part of our global trade deficit is with the region.

Asia is also a new center of technological innovation and entrepreneurship, a fact the United States cannot afford to ignore. As President Clinton has stated, we must meet this challenge by embracing change and creating the jobs of tomorrow. U.S. exporters and investors must have access to rapidly growing and increasingly sophisticated Asian markets in order to meet and beat our competitors.

PROSPECTS FOR REGIONAL ECONOMIC COOPERATION

To ensure that they do, the Clinton administration is aggressively promoting the development of open, market-oriented economies in the Pacific Rim. We are doing so globally through the GATT-Uruguay round negotiations. We are doing so bilaterally through, for example, our Framework for a New Economic Partnership with Japan and our dialogue for economic cooperation with Korea.

Regional economic cooperation is also key to building a strong and open global economic system for the 21st century. Passage of the NAFTA is vital to strengthening the United States both at home and abroad.

Our positive decision on the NAFTA will confirm to the world that the United States is ready to lead and compete in a changing global economy.

In the Asia-Pacific region, Mr. Chairman, APEC holds special promise for building regional economic cooperation. APEC is a forum for the 21st century. It is organized around economic, not security, interests. This week's meetings in Seattle will be a watershed. The leaders of the APEC member economies, along with trade, foreign and economic ministers, will gather to consider the economic future of the most dynamic region in the world.

Business leaders from throughout the region, those who are building the Asia-Pacific market every day, will meet in Seattle as well.

AGENDA FOR THE MINISTERIAL MEETING

At the ministerial meeting, we will work to strengthen APEC as our most promising regional economic forum. APEC ministers will review a proposed trade and investment framework declaration. It would establish an APEC Trade and Investment Committee which we hope will provide a new APEC voice on global issues.

The ministers will also review the recommendations of the APEC Eminent Persons Group, which lay out a bold vision for the future. The ministers will explore ways to better tap the views of the private sector, to ensure that APEC addresses real world problems.

The first-ever meeting of economic leaders from the region will then be hosted by President Clinton after the ministerial. It will be an historic opportunity to develop a vision for the region's future. In an informal setting, the President hopes to hear from the other economic leaders their views of the greatest opportunities and challenges facing the region in the next century and ways we might cooperate to address both.

In conclusion, Mr. Chairman, the APEC economic leaders meeting is a reaffirmation of the U.S. intention to remain a leader in the Asia-Pacific region, a part of the world which is critical to America's future. We hope that this week's pivotal events in Seattle will mark the beginning of a new appreciation among the American people of the key role of international markets to our domestic prosperity and the future of the United States as a Pacific nation.

Thank you.

[The prepared statement of Under Secretary Spero appears at the conclusion of the hearing.]

Mr. GEJDENSON. Thank you. Secretary Lord.

STATEMENT OF WINSTON LORD, ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. LORD. First I apologize for being a few minutes late.

Mr. GEJDENSON. So was I.

SIGNIFICANCE OF APEC MINISTERIAL MEETINGS

Mr. LORD. Secondly, I will submit a full statement and read excerpts so we can get to your questions.

Thank you for inviting Under Secretary Spero and myself to appear before the committee. Your interest and support for APEC has been well demonstrated by your approval of House Concurrent Resolution 113. That resolution encourages U.S. leadership in APEC and instructs the administration to seize the opportunity presented by the U.S. chairmanship to reaffirm our commitment to an emerging economic organization that promotes free trade and investment and thus greater prosperity in the Asia-Pacific region.

For the past year, we have been working steadily in Asian capitals, in Washington and at meetings in Williamsburg, Honolulu, and Seattle to do just that.

In 2 days, Secretary of State Christopher will open the first U.S.-hosted APEC ministerial meeting in Seattle, culminating a year of leadership. We chose Seattle for this important occasion to dramatize that America is a two-ocean country with a vital interest in the Pacific.

Washington's ports, of which Seattle is the largest, handled nearly one-tenth of all U.S. global trade, one-fifth of U.S. imports from Japan, and one-sixth of U.S. imports from China. Representative Cantwell talked about Seattle. There was an interesting *New York Times* piece on it today I thought.

The APEC member economies form a vital market for the United States, and again my colleague has described some of the dimensions here. We in turn believe that APEC is the most promising avenue for enhancing economic cooperation, a goal in the post-cold war era as essential to regional stability as security and democratization.

APEC'S BASIC OBJECTIVES

According to the declaration adopted by the Seoul ministerial in 1991, APEC's basic objectives are to sustain growth and development of the region, enhance the gains from increasing interdepend-

ence, strengthen the open, multilateral trading system, and reduce barriers to trade and investment in a manner consistent with GATT principles.

In the few short years of existence, APEC has made considerable headway and, as I describe in my statement, through its Regional Trade Liberalization Group and through the establishment of a secretariat. Progress has been made through greater focus on working groups.

My colleague has described an historic economic leaders meeting that the President is convening on November 20. The President sees this session as a forum to take a broad look at economic challenges and opportunities facing the region and ways APEC can enhance cooperation.

This event will underline the huge stakes for America in the Asia-Pacific region and our determination to stay actively engaged. The leaders will be discussing their vision for the Pacific community in the 21st century, their shared goals and objectives, and the means, including APEC, to advance together.

U.S. ENGAGEMENT IN THE ASIAN-PACIFIC REGION

When the ministerial meeting draws to a close, we will be summing up the results. I think there are some themes that will be evident throughout the week as well as at that meeting.

First, to the economies of the Asia-Pacific region we will demonstrate that the United States intends to be deeply engaged in the Pacific. We will continue to promote free trade in open markets in the region and the world.

To the American people and the American business community, this meeting and these events will highlight the tremendous opportunities in the Asia-Pacific region. As the Under Secretary said, no area of the world is more central to our domestic economic strength or more lucrative for American jobs and exports.

Finally, our chairmanship of APEC will reaffirm our support for the organization and our determination to strengthen it in collaboration with others.

U.S. POLICY OBJECTIVES IN THE ASIA-PACIFIC

Just a few words, Mr. Chairman, on the broader context of our approach to APEC. President Clinton views the Asia-Pacific region as one of promise and dynamism where American interests are very much involved. It contains the world's fastest-growing economies. Its security environment is generally stable. Its societies are moving toward greater freedom.

Of course, there are problems as well as opportunities—our large trade deficits, tension on the Korean peninsula, residual repressive regimes. When President Clinton outlined his vision for the Pacific in two major speeches in July, he called for the creation of a community of nations built on shared strength, prosperity and commitment to democratic values as well as regional approaches to global problems.

The emphasis on the word "shared" is fundamental because we are describing a community. We have our own ideas. We will show leadership as befits a great nation, but this community must be built in cooperation with others. We seek their views.

Together over decades we can shape a community in a spirit of consensus and partnership. This community will promote free markets and therefore prosperity for all, security through regional dialogues with potential enemies, and reduce tensions by talking to each other directly rather than building up blocks against a common threat.

It will promote open societies not in terms of imposing American values on other cultures and traditions, but in recognition that in an age of computers, fax machines and cellular telephones, with growing exposure to investment, trade and tourism, societies must be open politically as well as economically; and finally, this community will address problems of a global nature like the environment, narcotics, refugees, and AIDS that have a strong regional dimension.

The APEC process we believe can be a crucial element of this community. Despite its progress to date, we cannot rest on our laurels. Now is the time for APEC to begin taking concrete steps to address regional economic problems for the benefit of all members.

I indicate the areas where we think emphasis would be most appropriate, including strengthening trade and investment liberalization at the regional level, working to improve regional infrastructure, working to enhance programs to support human resource development, placing greater emphasis on environmental issues and sustainable development, and, finally, harnessing more effectively the energies of the private sector for the region.

I want to emphasize, as did the Under Secretary, the importance of the private sector. They are ahead of government. Part of APEC's job is to find ways to remove obstacles and let business get on with its work.

APEC AS LEADER FOR WORLD TRADE LIBERALIZATION

Finally, I would like to stress that APEC is not a trading bloc, but a building block for the world system. This principle will be underscored in Seattle.

The GATT-Uruguay round holds out enormous opportunities to open markets and spur growth and we will make that very clear in Seattle as will APEC in general because the principle here is that the global trading system is the fundamental approach to a more prosperous world. So it is crucial that the Uruguay round be completed successfully and on schedule.

My report here today, Mr. Chairman, does mention some of the highlights we expect at the ministerial in Seattle as well as some of the areas that we think should be focused on by APEC in the coming years. In the interest of time, I will submit the full text to you and go directly to my conclusion.

In the post-cold war era, the Asia-Pacific region will be a primary source of new ideas, funds and know-how to lead the world economy into the next century. The APEC economies possess the economic strength, energy, creativity, technology and human resources not only to bolster our own growth, but to trigger worldwide economic prosperity.

The APEC members can provide new leadership for global trade liberalization at a time when many seek to meet domestic challenges through protectionist policies. The progressive elimination of

trade and investment barriers through regional efforts and through the Uruguay round will serve to integrate the Asia-Pacific market and this in turn will promote private sector and sustained economic development.

APEC is a promising vehicle to advance the interest and increase the well-being of all the citizens of the Asia-Pacific region. It has begun well. It needs to do more consonant with the collective views of its members.

Some opportunities will be seized in Seattle. Others will be explored during the coming year. Working with our Asia-Pacific partners the United States will strive to lift the horizons of the peoples throughout the region.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Lord appears at the conclusion of the hearing.]

Mr. GEJDENSON. Thank you.

DIFFICULTIES IN NEGOTIATING WITH NONDEMOCRATIC GOVERNMENTS

There is no question that I think the committee generally shares the goals. The devil of course is in the detail. Look at the challenges we have had with Japan over the last several decades where corporate dumping and other issues have become incredibly volatile. Entire sectors were under assault, the machine tool industry with the Hodai case, electronics and other areas where it was clear the corporate policy was to wipe out American sectors and then take over the markets. At least in those instances we had some sort of democratic counterpressure.

There were already Japanese demanding more access for foreign goods into the Japanese market because they want more competitive prices. There is some kind of equivalent system going on in the other side. In a country like Taiwan that was ready to work at very low wages with very little concern for the environment, and has democratic institutions in place, there is more pressure for environmental cleanup and a better standard of living.

You can see a leveling of the playing field, a rational economic occurrence where they do the things that make sense for them to do and we do the things that make sense for us to do. When you have relations with nondemocratic governments where there isn't an opportunity for workers and environmentalists to make their case, it seems to me that is a much tougher place to negotiate out an agreement.

China is the example that I look to in Asia. For the Chinese Government, it seems to me it is not irrational to make garments at almost any price because it is their unemployment program at the end of the day. And whether they do it with prison labor to keep their prisoners busy and out of trouble or whether they do it through governmental subsidies to corporations in the feedstocks for particular industries to make sure that there isn't unemployment in different areas, how do we interface a free and democratic and competitive marketplace with nondemocratic governments and marketplaces like China?

Even as they go to an open and competitive marketplace, their fundamental policy still has to be directed toward keeping their people working.

NEGOTIATIONS WITH CHINA ON TRADE ISSUES CONTINUE

Ms. SPERO. Let me comment. We continue to retain with China, Mr. Chairman, all of the tools that we have in our trade arsenal and we have used those tools and we have encouraged negotiations with China.

As you may know, before the Clinton administration came into office, there were agreements about a year ago with China, a Memorandum of Understanding on a variety of issues and work on the question of prison labor. I think we would need to continue to use all the trade tools that we have, whether they are the anti-dumping countervailing duty laws, section 301 or whatever.

We need to continue to push on these issues and we continue to do so. Ambassador Barshefsky, the Deputy U.S. Trade Representative, has recently returned from China and talks about their implementation of that agreement.

Secondly, we have another approach. We have agreed to support staunchly the entrance of China into the General Agreement on Tariffs and Trade, the GATT. China is not ready for admission now. It has a long way to go. But the process of moving toward an economic regime, which would fit within the GATT context will, I think, move them in the direction of more fair competition.

In addition to pushing them toward accepting international rules and using the bilateral tools we have available, we have the MFN question and its linkage with their human rights policy. Encouraging China to move on MFN does address some of the issues that you are talking about. So I think we have a variety of tools in our arsenal.

MOVEMENT TOWARD MORE OPEN POLITICAL SYSTEM IN CHINA

Mr. LORD. As I expected, that was a splendid answer, so I don't have much to add except in a longer term, more conceptual nature. I think she has described the tools we have over the coming years. I also think to get to the part of your question that would form the background, that China will have to move toward a more open political system.

There is only so long that you can have open economics and closed politics, and I referred to this in my statement. In an age of information of satellites, cellular telephones, ideas and information, being the fundamental elements needed for growth, you cannot confiscate computers, shut off satellites, guard fax machines.

Society is going to get more open. The political system is going to get more open over time. We saw that in Taiwan and South Korea a couple of decades ago. I believe the process has been speeded up because of the increasing premium on information in development and modernization.

There will be demands for greater wages and some of the elements you have cited in the other cases of Japan and Taiwan will come into play in China. But in the meantime, we have a difficult challenge and we are going to have to address it.

PROSPECTS FOR MFN RENEWAL FOR CHINA

Mr. GEJDENSON. The Chinese Foreign Minister last week indicated that he is considering granting the International Committee

of the Red Cross access to prisoners. That is obviously a step forward. What will happen to any president who is going to renew MFN status is this—the Chinese will leak the story that they are about to sell missiles to some country in the Middle East.

Suddenly the President will be concerned about missile proliferation. Human rights will improve marginally, but still be a horrendous situation. But with regards to other multilateral agreements, it seems to me that it is a very tough game here.

Is China heading in the right direction to get MFN when it is time for renewal or is it in trouble at this stage?

Mr. LORD. First of all, the Secretary of State will not recommend to the President and the President will not recommend to the Congress extension unless there has been overall significant progress in human rights as sketched in his Executive Order last spring. So this is a genuine commitment on his part.

We believe the conditions are reasonable that these can be met in the course of a year. We moved trade and nonproliferation objectives toward other instruments and away from MFN, because we don't want to see MFN be the center of China policy. We would like to continue MFN because it is important for American business interests. It is important to Taiwan and Hong Kong, some innocent bystanders, and it is important for the economic process in China which over time will bring political benefits.

However, we have this problem of human rights which the President takes seriously and that is why MFN has been conditioned. We are encouraged by the step concerning the Red Cross visits.

This is an important element. It is referred to in terms of access to prisons and humane treatment of prisoners is one of the elements of the Executive Order. It is an objective that human rights groups in this country have been urging for sometime so we think we should acknowledge this as an important step forward. However, there are many areas that we are looking at and this is only one of them, so obviously more progress will have to be made.

I would say until recent weeks that we had not made any progress in human rights since last spring. There is modest movement in some areas, some just before the Olympic decision, and there was some slippage in other areas and the leaders of this administration made clear in recent weeks that as of today, we would not be able to recommend extension of MFN.

However, as a result of a new policy of more comprehensive engagement, we hope we can make progress on this issue as well as others. We have seen the Red Cross decision. Let's hope there is other movement.

Finally, I would say that Secretary Christopher and others have stressed in recent weeks to the Chinese the need to make rapid progress on human rights; that in fact it is important to make progress early on and steadily and that any moves that they make now in many ways will look more significant than last-minute gestures.

Finally, I can assure you that the Secretary, who will meet his counterpart, and the President who will meet his counterpart in Seattle, will be addressing these issues.

Mr. GEJDENSON. Thank you. Mr. Ackerman.

MFN NOT CENTRAL FOCUS OF U.S.-CHINA RELATIONSHIP

Mr. ACKERMAN. Thank you very much.

Secretary Lord, you said a moment ago that keeping MFN is not the center of our China policy.

Mr. LORD. I want to be precise. We don't like to see MFN as the center. We think too much rests on the annual debate. There ought to be a broader framework. We don't want to lose MFN, but that requires progress by the Chinese.

Mr. ACKERMAN. That is a given. Is keeping China engaged central to our Asia policy, and can you accomplish the former if you lose the latter?

Mr. LORD. I think keeping China engaged is important. When I said policy of engagement, this was the recent move by the United States to step up our exchanges and visits. Obviously good relations with China will have a lot to do with the future stability and prosperity of the Asia region, even as relationships with Japan, our most important partner, and others will be crucial as well. So the answer to your question is yes.

STATEMENT IN SEATTLE ON GATT

Mr. ACKERMAN. Is there a possibility at the leaders meeting that there will be a statement on GATT?

Mr. LORD. I would like Under Secretary Spero to address this. There is no question in my mind that both the ministers and the leaders will stress the importance of successful conclusion of the Uruguay round and underline the fact that APEC is not a regional trading bloc. It supports a building block for global trade liberalization.

Ms. SPERO. Both the declaration by the ministers and the final statement by the leaders are now being discussed among senior officials. It is very much our expectation and our strong effort to ensure that in the ministerial statement that there will be a very strong endorsement of the Uruguay round.

It is also our hope that that will come out of the leaders meeting as well. The leaders meeting is intended to be more far-reaching, more visionary, and in fact, the concluding statement at this point is described as a "Visionary Statement." So we would hope endorsement of open trade and the Uruguay round would be included in both.

NAFTA AND VITAL U.S. INTERESTS

Mr. ACKERMAN. You mentioned on page 3 of your statement the NAFTA, in which you say that "Passage of the NAFTA is vital to strengthening the United States both at home and abroad," cutting an even greater administration stake in the passage of that bill.

Should NAFTA fail, are our vital interests at home and abroad weakened?

Secondly, you say that NAFTA will give our exporters access to the world's largest free trade area, comprising about 370 million people. Of those 370 million people, I believe somewhere in the neighborhood of 85 million are Mexican and 25 million are Canadian, leaving—I guess it doesn't add up to what I understood—but

roughly 250 million of the 370 million are indeed Americans unless there was a baby boom or something in Canada or Mexico.

We do have access to 250 million of those 370 million people because they are our own citizens, regardless of the existence of NAFTA or not?

Ms. SPERO. Yes. We have access to the U.S. market.

Let me respond to your question about failure to pass NAFTA. We see ourselves at the beginning of a triple-play, if you will. We have the NAFTA vote, the APEC meeting, and the December 15 deadline for the Uruguay round. We believe that positive action on NAFTA will position the President and the United States very effectively, both at APEC and then in the final stretch of the Uruguay round, to be able to advance our position in an effective way.

If NAFTA does not pass, it will weaken the hand of the President. It will make it more difficult for us to push for open markets in Asia and more difficult for us to be successful in negotiating the Uruguay round.

Mr. ACKERMAN. Difficult, but not impossible?

Ms. SPERO. Difficult, but not impossible. We need all the help we can get.

Mr. GEJDENSON. Mr. Manzullo.

MEXICAN-ASIAN TRADE IN ABSENCE OF NAFTA

Mr. MANZULLO. Thank you, Mr. Chairman.

This is sort of a follow-up to Mr. Ackerman's question. If NAFTA should not prevail in the U.S. Congress, what if any action do you think will emanate from these Asian countries toward Mexico, to the exclusion of the United States?

Ms. SPERO. As some have suggested, we have a very exciting and promising prospect of access to the Mexican market. It would be entirely possible that other countries would try to negotiate similar types of agreements with Mexico.

I can't predict exactly what they will do, but we will have preferential access to the Mexican market under this NAFTA agreement. Mexico is the fastest-growing export market that we have. It is very attractive to Japan and Europe, so others would try to secure favorable access to the Mexican market.

Mr. MANZULLO. Do you see any cheering going on in the Asian countries in the event that NAFTA fails in the U.S. Congress?

Ms. SPERO. I think in some parts of Asia, there are concerns about NAFTA. In Southeast Asia, for example, there is a concern that the United States will turn more toward the Mexican market, that the United States will source more from Mexico, that there will be more economic activity in Mexico and that they will be disadvantaged by that.

I notice today in the Journal of Commerce there was an editorial by the Australian Ambassador to the United States saying that he for one and that his country for one believes that a successful passage of NAFTA will position the United States well both at APEC and in the Uruguay round.

NAFTA IS CONSISTENT WITH GATT

Mr. MANZULLO. I know this is a difficult question, but assuming that NAFTA does pass, to what extent do you feel this would posi-

tively posture the United States with the APEC meeting and the successful conclusion of the Uruguay round?

Ms. SPERO. I think it will be absolutely positive. I think it will send our President to Seattle with a statement by the American people that they believe in open markets, that they are prepared to compete, and that they reject isolationism.

I think that will strengthen the President's hand in meetings there and it will strengthen our hand in negotiations as we come down the home stretch in the Uruguay round.

I think if we don't have a successful NAFTA, it is possible that our other partners in the negotiations in the Uruguay round will wonder whether the United States can deliver on a trade negotiation. I would worry that it will lead them to pull back and not to put their offers on the table and to weaken our ability to get a very powerful, effective deal for the United States.

Mr. LORD. Obviously behind your question is the feeling that many Asian countries either don't fully understand or view with suspicion or even alarm NAFTA. We are trying to stress to them that NAFTA like other subregional open efforts is designed to increase global free trade, not meant to discriminate against other countries; that it is GATT consistent and open.

Two points that I think we can make to our Asian friends with respect to NAFTA: To the extent that they are worried about trade, I think history shows that over time a larger market will be created if NAFTA promotes trade for all countries in the world, including Asia. There may be some short-term adjustments, but over time we think it will be in their interest as well, as long as it is GATT-consistent.

Secondly with respect to investment, you can argue different ways where investment flows will go, but the best response for the Asian nations is to improve their own investment climate, whether it is transparency, openness, no expropriation, protection of intellectual property rights, and if they make their markets attractive to investment their fears about NAFTA in this area should decline as well.

Mr. GEJDENSON. Ms. Cantwell.

IMPACT OF NAFTA ON GATT

Ms. CANTWELL. I would like to continue this discussion but from a little bit different angle. It seems to me that we are setting a very dramatic stage this week in Seattle for this conference in which we are negotiating with the fastest-growing economic region of the country. If we fail to pass NAFTA, what leverage at all do we have in going into these negotiations and discussions?

Even if they are a building block, a stepping point for finalization of GATT, what leverage do we have to say to our Asian counterparts, "We need to have further discussion on reducing barriers to trade"? How can we, being the host committee, send the President of the United States there and lead this discussion if we in fact have shown that we as a country and as a Congress and the people behind us can't resolve this issue with one of our closest neighbors?

Mr. LORD. The premise of your question is absolutely correct. There is no question that if the President succeeds in the NAFTA vote he will be greatly strengthened in Seattle and the Uruguay

round. Conversely, if he fails, he will have to proceed with as much enthusiasm and skill as he can, but it will be a much more difficult task. That is why the NAFTA vote is so important for the authority of the Presidency, for America's role in the world, for being with the future instead of the past.

It starts the day after the vote in Seattle. So I fully agree with the thrust of your question. It is a very important reason to vote for NAFTA in my opinion.

Ms. CANTWELL. I am not just asking a politically rhetorical question here.

Secretary Lord, you have served in two previous administrations, and we appreciate that continuation of foresight, but this is a very legitimate concern as to what will our official response be at this conference if NAFTA fails, and where does that put us in our negotiation? I don't know if Secretary Spero would like to comment on what our response would be at this international event.

Ms. SPERO. I won't repeat what Secretary Lord said because I fully agree with the difficult position it would put us in. However, I think we would have to go to Seattle and we would have to say that we have a common interest in this region in open trade and promoting trade.

I would say we would have to redouble our efforts to seek a successful conclusion to the Uruguay round, but again I would reiterate our ability to achieve the result we would like will be hampered. I think that we would need to say we have lost the battle but we are going to continue to fight the war.

Mr. GEJDENSON. Mr. Leach.

THE KOREAN ISSUE ON THE APEC AGENDA

Mr. LEACH. Thank you, Mr. Chairman.

I have, Mr. Chairman, several questions that might go beyond my time. I don't like to go beyond my time. I wonder if you are going to have a second round?

Mr. GEJDENSON. I don't know if you want to yield to the chairman.

Mr. LEACH. I would be happy to.

Chairman HAMILTON. No; go ahead.

Mr. GEJDENSON. Take your time and we will have a second round.

Mr. LEACH. Thank you.

First let me say that I think we all concur that on the free trade agenda today, there is a tripod of issues—NAFTA, GATT, and there is a third—

Ms. SPERO. The Uruguay round.

Mr. LEACH [continuing]. APEC—which is the subject of this hearing.

Having said that, intriguingly, on the free trade front when we deal with Asia, we are also dealing with the obverse of this circumstance and that is one part of a foreign policy agenda where we are trying to restrain trade and that is North Korea. So it strikes me that what you have here is a two-pronged policy; one of trying to expand trade and reward trade, and the other is trying to achieve the reverse.

I don't think that is inappropriate at all. I think if anything that is the exact wise way to go. But I would think at this time as all the attention focuses on APEC and the issue of trade, that Seattle is also a point where on the agenda at the highest policy level has to be North Korea.

I am wondering Secretary Lord, because this is more your bailiwick, what exactly the United States is going to be suggesting with our Asian allies, and how it is we are going to confront a challenge that I think could well be the most serious we have in the world today, at least the one most likely to lead to greatest involvement of America in a military sense.

Can you tell us what is your agenda and where are you heading on the Korean issue?

Mr. LORD. Certainly.

First we have to separate out I think the multilateral meetings of APEC and the bilateral meetings that will take place around the edges of the conference. APEC is an economic organization and, in particular, in proposing this informal leaders conference, an historic, unprecedented event, the President stressed to those members of APEC who are a little concerned about APEC not moving too quickly that this was an informal leaders meeting, that we not have major outcomes, and to get to your question, that we would discuss only economic issues.

So the Korean issue will not come up in these multilateral discussions that would in effect get outside of the traditional agenda in what we promise to the other countries. That is true at the ministerial level as well.

Now having said that, of course there are private conversations, of course there are dinner conversations, pull-asides and coffee breaks where other issues will be discussed, and we have formal bilaterals scheduled, including with Japan and China, for example, both very much interested in this question, as well as the South Korean President who will be there as well.

So the answer is I share your sense of gravity about the issue. I can assure you it will be discussed in Seattle, but in bilateral context and not in multilateral sessions for the reasons I mentioned.

U.S. POLICY TOWARD NORTH KOREA

Mr. LEACH. Can you share with us what the United States will be suggesting?

Mr. LORD. We will maintain solidarity as the first principle with our allies and throughout the process we have worked extremely closely with South Korea and Japan. We have not taken a step that they didn't agree to or encourage.

We have been working with China and they have been generally constructive on this issue. It is not in their interest to see nuclear weapons on the peninsula.

I would rather not get into specific tactics in this public session. I think our goals are clear; namely that before we can return to a third round of discussions with the North Koreans, we have to be assured that the IAEA is assured of the continuity of safeguards through inspections and the firm arrangements for the discussions between South and North Korea have to be worked out.

If that takes place we are willing to go to a third round. We want to solve this through diplomacy, but our patience is not unlimited and we want to stay in close step with our allies on that. Our general goal is to keep North Korea in the Nonproliferation Treaty, to assure the full range of inspections that are required and assure the denuclearization of the peninsula through the South-North Accord.

Those remain our goals, but at this moment I am not sure it is appropriate to talk about tactics in the coming weeks.

NORTH KOREA MAY OVERWHELM APEC AGENDA

Mr. LEACH. My time has expired. You have laid forth an agenda for which there can be no disagreement. On the other hand, it is not what might be described as a powerful agenda. But I think implicitly APEC does symbolize the disadvantage of North Korea standing outside, not only the community of nations politically, but economically. The longer North Korea is outside of that community, the longer its people are going to either suffer or not have the advantages that they might otherwise have had.

I think that symbolically is a great message for the North Koreans, but I am afraid at this particular time it may be an insufficient message. I am pleased that this is on your platter, but my own sense is despite the fact that this is an economic summit, this one political issue may well overwhelm it, and I hope the United States is prepared to take the lead in that discussion.

Mr. Chairman, my time has expired. I am happy to have a second round if we could.

Mr. GEJDENSON. Mr. Hamilton.

EXPECTED OUTCOME OF APEC MEETING

Chairman HAMILTON. Thank very much, Mr. Chairman.

I want to try to get a better concept of what you expect to happen at the APEC meeting. What constitutes success for us?

Ms. SPERO. With regard to the ministerial, Mr. Hamilton, there are several outcomes that we are hoping for and expecting. The first one would be for the ministers to agree on a trade and investment framework. This would be a multilateral set of principles for promoting open trade and investment in the region.

We would also hope the ministers would agree to the establishment of a Trade and Investment Committee within APEC. This will be a first-ever committee to work on how to implement these principles of open trade and investment.

Chairman HAMILTON. When you talk about framework, what do you mean specifically?

Ms. SPERO. It would be more a set of principles and more of, if you will, a voluntary kind of organization. It would not be trade liberalization. We don't expect trade negotiations to be taking place within APEC.

What we do expect, and this is a second set of outcomes that we would hope—there is a set of working groups that has been operating within APEC for some time. Those working groups address some very nitty-gritty issues of promoting trade in the region.

They have been working on cooperating and possibly harmonizing telecommunications regulation, smoothing and automating cus-

toms procedures, finding common agreement on environmental and marine resource issues. Sometimes these don't sound as dramatic as the Uruguay round negotiation, but they are very important ways for us to promote trade in the region and these working groups include the private sector.

Chairman HAMILTON. Are we going to come out of this meeting with a commitment by the APEC countries to a free and open trading system?

Ms. SPERO. We hope to have that commitment, yes.

THE FUTURE OF APEC

Chairman HAMILTON. If you were looking down the road 5 or 10 years from now, what would you expect APEC to be? What would you hope it would be?

Ms. SPERO. I think we would hope that the nitty-gritty work of APEC would lead to development of an infrastructure in the region that would really facilitate trade and that would promote American ability to export in the region.

Chairman HAMILTON. Are we looking at the creation of a trading bloc here?

Ms. SPERO. No. I don't think we see it as a trading bloc. We have been describing it as a building block, not a trading bloc. In fact, one of the terms that comes from one of the Asian members is open regionalism. We want to promote trade within the region. That is actually happening through the private sector.

EXPANDING APEC MEMBERSHIP

Chairman HAMILTON. Are you going to be expanding the membership of APEC?

Ms. SPERO. There will be a discussion of membership at the meeting and the expectation is that probably two members will be added to APEC, Mexico and Papua, New Guinea.

Chairman HAMILTON. What about Russia, India, and Chile? Would they be potential candidates to come into APEC?

Ms. SPERO. They would eventually be potential candidates.

Chairman HAMILTON. Do we, the United States, favor expanding the membership?

Ms. SPERO. We have not taken a position on whether membership should be expanded beyond Papua, New Guinea and Mexico. We do believe it is time for us to take a look at what the membership criteria should be for APEC and how the organization should enlarge. There are quite a few countries that have indicated an interest in becoming members of APEC and we think we need to be more organized in deciding how to go about expanding the organization.

Chairman HAMILTON. Is there concern among members of APEC that the United States is throwing its weight around and trying to dominate the organization?

Ms. SPERO. There is, I think, in some of the Asian countries, and frankly among some of the other members, such as Korea and Australia, for example, a concern that the United States would like to go very quickly in organizing and making this an institutionalizing APEC. Some in Asia would prefer to go more cautiously and more slowly in that this is an organization that operates by consensus.

U.S. INTERESTS IN APEC

Chairman HAMILTON. How do we answer the question, "what is in it for us?" If you are talking to somebody who doesn't know very much about Asia or APEC, never heard of APEC, can you quantify how membership benefits the United States?

Ms. SPERO. I think you have to look first of all at the huge market and the huge trade relationship we have with Asia and with the APEC countries. APEC is one of the mechanisms, not the only mechanism, but it is an important regional mechanism, by which we can continue to try to promote open markets, access for foreign products, and access for foreign investment which leads to exports. APEC is another way for us to engage in the region and promote, not necessarily trade negotiations in the classical sense, but trade facilitation and removal of barriers.

I have been in the private sector myself, and I know what it is like to deal with multiple customs barriers. I know what it is like to deal with multiple telecommunications regulations. Those can be as problematic and difficult as many trade barriers.

APEC AND GLOBAL TRADE LIBERALIZATION

Chairman HAMILTON. Economists are very good at making projections. For example, they are very good at telling us how many jobs will be won and how many will be lost under NAFTA.

You just said we will be increasing exports. Do we have the figures in terms of how much it is going to help us with respect to exports or how much it is going to help us in terms of jobs, or are we not that far along?

Ms. SPERO. I don't think we have any precise figures.

Chairman HAMILTON. But it is your conviction that APEC will lead to additional trade between the United States and the Asian Rim countries?

Ms. SPERO. I would think that APEC, combined with a tough bilateral trade negotiating approach combined with the Uruguay round will do so. I think we need all three strings to our bow.

Chairman HAMILTON. And where does APEC fit within those strings? Is APEC the most important of the three or are they interdependent—

Ms. SPERO. I think they are interdependent. One thing that we keep emphasizing is critical is the Uruguay round. The Uruguay round is what is going to enable us to maintain this open regionalism and make sure markets don't close.

ACHIEVEMENTS OF APEC TO DATE

Chairman HAMILTON. One of the things that strikes you when you look at the APEC membership list is that it is so extraordinarily diverse—you have China on one hand, the United States, Brunei is there—it is an extraordinary group. To get all these nations working together is going to be a considerable achievement; right?

Ms. SPERO. It is.

Secretary Lord may want to comment on that. You have to look at APEC today as you looked at NATO in 1950, let's say. APEC

was created in 1989. It didn't have an institutional format. It has moved a long way in the past 4 or 5 years.

Chairman HAMILTON. Do you expect it to have any security connotations?

Ms. SPERO. No. We are not looking for it to have security connotations.

Chairman HAMILTON. Strictly economic?

Ms. SPERO. Strictly economic.

Chairman HAMILTON. If I were to ask you today what are the achievements of APEC as of today, how would you answer that?

Ms. SPERO. I would say as an organization itself, the fact that it is becoming institutionalized, that it has an ongoing identity, that it has been able to bring the three Chinas into the dialogue—

Chairman HAMILTON. When you say it is institutionalized, what does that mean?

Ms. SPERO. It has a secretariat that is based in Singapore with a very small group.

Chairman HAMILTON. How many people?

Ms. SPERO. I think 15.

Chairman HAMILTON. Is the idea here to have that secretariat become a lot larger? Is it going to become another Brussels?

Ms. SPERO. No and no again.

Chairman HAMILTON. Are other countries now seeking to get into APEC? Are they applying at this point?

Ms. SPERO. There is no formal application process. APEC operates in a very consensual Asian way. A number of countries have indicated an interest. They range from Russia and Mongolia, to India.

APEC OPERATES ON CONSENSUS BASIS

Chairman HAMILTON. I would like to have you submit for us, if you would, exactly what, in your judgment, the achievements of APEC are to date and what you think the achievements might be in the next, say, 5 years. Be as specific as you can be in response to those questions. I know it is not too easy to be specific with regard to the future. But I would like to get some sense of that.

Does APEC operate on a consensus basis?

Ms. SPERO. Yes.

Chairman HAMILTON. Is that good or bad? That means Brunei could have a veto.

Ms. SPERO. As I understand the way that APEC operates, consensus means that one country will not stand in the way of the will of the others.

Chairman HAMILTON. So countries do not have a veto?

Mr. LORD. I think that is fair to say. I mean obviously it is more subtle than just unanimous action being required. It is a community where if there is only perhaps one or two countries, they will yield, depending on the importance of the issue.

So I think it is fair to say no one has a veto, but you don't want someone pushed aside unnecessarily.

Chairman HAMILTON. Are we going to see a different kind of voting process, where two-thirds carry or something of that sort?

Mr. LORD. No, I don't think that is in the cards. I don't want to interrupt your flow of questions, but I would like to pick up one of the themes you mentioned when you are through.

IMPACT OF ROTATING CHAIRMANSHIP ON APEC

Chairman HAMILTON. I have one final question. We have the Chair right now, and Indonesia will succeed us. Will there be a smooth transition or are you going to get a markedly different direction in leadership when you switch from the United States to Indonesia and then some other country?

Ms. SPERO. Because APEC has become institutionalized, there is an institutional memory and there is a secretariat. The head is an American, but his deputy is Indonesian and he will take over next year.

In terms of the planning, administration, general historical sense, there will be continuity. Obviously Indonesia will have issues it would want to push. The style may be slightly different, but since it is an organization that operates by consensus, it is not one we can push at a U.S. pace. They can push at a Indonesian pace. There may be changes in style, but I don't see a dramatic shift in the agenda.

OBJECTIVES OF APEC MEETING

Mr. LORD. A few comments on some of your questions, Mr. Chairman.

First, one of your questions was what are we going to achieve in Seattle? I think we have to keep in mind that this will have tremendous symbolism, which is hard to quantify but is nevertheless important.

For the Asian audience, it will be another firm bit of evidence that we are going to stay engaged in the region, that we will be anchored out there, that we have every interest in the region because of the various economic security and other stakes.

To our domestic audience, I think it will help raise public consciousness about the stakes out there, not only economic, but across the board.

In this regard Secretary Christopher will give a major speech Wednesday outlining our Pacific policy and outlining the President's vision of the Pacific community. The President will give a speech with more economic focus later in the week.

I think to this audience it will bring home an important message in addition to any specific outcomes we achieve in the meeting. Maybe we can give impetus to the conclusion of the Uruguay round. That would be a significant outcome.

There are some other modest steps the leaders are considering in the financial, educational and business areas, but again this was designed to be a discussion and not an elaborate negotiating of communiqués and major outcomes. We only had a few months and we wanted everybody to be comfortable about the session.

Over time I think APEC can be used in addition to the central points the Under Secretary made. It is hard to quantify in trade terms, but in our formal alliances out there in the security sense, APEC helps ensure that there will not be an Asian-only trading bloc, that it will be a trans-Pacific approach to trade.

QUESTION OF EXPANDING APEC MEMBERSHIP

We think it is important in that respect. With respect to membership, the organization is facing the challenge which the EC and other groups have faced over time. That is, do you deepen a new organization or broaden it or both at once?

Some in the organization would like to include a lot of other members fairly quickly so it doesn't look like an exclusive trading arrangement. Others say what do we mean by a Pacific community? Is India part of that? Chile, Peru or Mongolia? These are fair questions.

These will be discussed in Seattle, but the immediate outcomes have been foreshadowed by Under Secretary Spero. On the transition, I want to underline the point Under Secretary Spero made that this is a consensus organization.

We cannot go faster than many countries are comfortable with, but we cannot let the lowest common denominator prevail. This approach will have advantages and disadvantages, but we had no choice in setting APEC up.

Some countries were not comfortable that this may move too quickly. We will exercise leadership, but we will be understanding of the needs of others.

Mr. GEJDENSON. Mr. Gilman.

REVIEW OF U.S. NEW ZEALAND POLICY

Mr. GILMAN. Thank you, Mr. Chairman. I am happy that you called this meeting in light of the summit in Seattle later this week.

I would like to welcome our witnesses, Under Secretary Joan Spero and Assistant Secretary Winston Lord who spent considerable time briefing our committee on trade issues in the past.

As much as I would like APEC to advance our economic and trade interests in the Pacific, I think there are serious questions that this debating forum can play much of a role in addressing our fundamental and outstanding trade problems with Japan and other nations in the Pacific.

Several critics of the administration's trade policy have characterized the approach to trade as the "son of MOSS" dating back to the 1980's.

So I would welcome any clarification you might be able to lend to us on where we put it on the family tree.

First, I would like to ask Ambassador Lord, I am aware that the Prime Minister of New Zealand will not be attending the APEC meeting because of recent elections.

However, I would like to know if you can tell us when we intend to lift the restrictions of access placed on New Zealand officials.

Mr. LORD. With respect to Seattle, they will be there for the ministerial meeting. It may be possible that they will have a representative at the leaders' meeting, as well. The Prime Minister wanted to come, but the election results have been so close that he believes he cannot get away. They will be fully represented in Seattle.

With respect to the broader question, as I have told you and Congressman Leach and others who have a lot of interest in this, we have been reviewing our New Zealand policy. We didn't think it

was a wise idea to conclude this or publicize it during an election period.

But we have been looking very carefully at those issues and others with respect to our New Zealand policy and we will talk to the Congress in the coming weeks and months about where we go from here.

Mr. GILMAN. Do you anticipate a decision?

Mr. LORD. Obviously, this involves many agencies including the White House, and I am not in a position to predict the date or outcome. We have an interest in looking at this policy. It is a serious effort, but I cannot give you the specific date.

EXPANDING APEC MEMBERSHIP

Mr. GILMAN. Are all the countries in East Asia participating?

Mr. LORD. It depends on how you define East Asia. As far as criteria for membership, does Russia become part of East Asia? It wants to get into APEC. How about the countries of the Western Hemisphere that border the Pacific?

I think there is still room for other countries. Not immediately, but at some point. There are many countries with an interest in the region that are not yet members.

ABSENCE OF MALAYSIAN PRIME MINISTER

Mr. GILMAN. What about the Malaysian prime ministers, did they decide to attend?

Mr. LORD. Malaysia will be represented at the ministerial meeting, but the Prime Minister said he will not be coming to the leaders' meeting. It is no secret that Malaysia and the Prime Minister believe that APEC should proceed slowly. I guess you have to ask him why he is not coming. We regret his absence. We think he would be an articulate spokesman and we think it would be in his self-interest to be there to present his view. But we regret that he has chosen not to attend.

ROLE OF SMALLER COUNTRIES IN APEC

Mr. GILMAN. Could you discuss the smaller countries in the region, that they would not be full partners in the APEC issues and that APEC began somewhat of an informal discussion in the late 1980's and now appears to be evolving into a more formal structure with Singapore? Does our Nation intend to support further formalizing the APEC structure?

Ms. SPERO. We find the Secretariat is very useful. We would like to have adequate support, particularly for the working groups. They are doing the nitty-gritty work in close communication with the private sector on issues such as communications and customs.

We would not want to have a large secretariat or bureaucracy at all. We think small is beautiful.

Mr. GILMAN. What about the concern about the smaller countries feeling they would not be full partners in APEC issues?

Ms. SPERO. In this organization and many others I think of, the smaller countries actually do have a fairly significant voice.

Mr. LORD. Some of the smaller countries are among the most enthusiastic for APEC, so it doesn't always correlate to size.

PROSPECTS FOR FUTURE LEADERS' MEETINGS

Mr. GILMAN. Will the leaders' meetings become a regular feature of the APEC group?

Ms. SPERO. President Clinton, in inviting the leaders, said this would be an informal discussion to focus on economic issues and it was seen as a one-time event. This was not an effort to institutionalize the leaders' meeting.

Mr. LORD. So it will be up to future chairmen of the process to decide whether they want to have such a meeting again.

Mr. GILMAN. Will they take it up at this meeting?

Mr. LORD. I don't know whether it will be specifically proposed or not. Again, we will hand over the chairmanship to Indonesia, so I think they would be the ones most vitally concerned. They would want the views of others, as well. The Under Secretary is absolutely correct; this was not meant to formalize this every year.

Mr. GILMAN. Was there a specified time when each chairman has a term of office?

Mr. LORD. Yes, one year. We will be handing over the reins on November 20. It is after the ministerial meeting that the next country takes over.

APEC'S LINKS WITH THE PRIVATE SECTOR

Mr. GILMAN. What has APEC done to bring in the private sector. Are there any links with the private sector? Are business people ever brought into APEC'S activity?

Ms. SPERO. I think one of the unique features about APEC is that it does have direct participation by the private sector. One group called PECC, the Pacific Economic Cooperation Council, actually participates in the meetings. Again, I think it is even more important that the private sector is actively involved in the different working groups.

It is our hope that the private sector would become even more engaged. Secretary Lord and I will attend meetings with a number of representatives of the U.S. private sector this week. They are very enthusiastic. They have ideas for other working groups. They would like to get more involved. We have been consulting them actively. They have been working directly and they have a formal representation in the organization.

Mr. LORD. There may be some attempts to get into this by the leaders, as well.

VALUE OF APEC TO U.S. BUSINESS

Mr. GILMAN. Have any of our U.S. businesses benefited so far from APEC'S work?

Ms. SPERO. They tell us they have. I cannot tell you they have signed any orders or made any particular exports or anything like that, but just to give you one example, we had a discussion with some U.S. companies in the telecommunications area. They were very enthusiastic about this regional telecommunications forum. They urged us to continue it and get support for it. Whereas you always want the bilateral context, particularly in some sectors, the regional dialogue is uniquely important and I think this is the place to do it.

Mr. LORD. The combination shows the world at large that 15 different economies with greatly different social systems, although all committed to the market, can agree that freer trade and investment is good for the Pacific economies.

I think the openness is the common thread. The consciousness raising for the American public I think will be important.

The Under Secretary mentioned the triple play where we hope the President will build: first, a NAFTA victory, and then APEC and the Uruguay round. APEC is an important part of that aspect. One of the outcomes could be a boost to the success of the Uruguay round in its final weeks.

There will be greater attention to the private sector and how it can be integrated in the work and there will be the trade and investment framework. The ministers will plan on it and they will begin to move APEC more from a consulting to a facilitating body.

Mr. GILMAN. Is it your office, Ambassador Lord, or, Secretary Spero, who will be the liaison between the administration on APEC?

Mr. LORD. She outranks me. We work closely together. I think we would both welcome the chance to deal with Congress. If you want the more senior official, you should go to her.

Mr. GILMAN. I would hope that the witnesses will have a opportunity to brief us at an early date following the summit meeting.

Thank you for being here.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Mr. Leach.

CRITICISM OF U.S. POLICY TOWARD NEW ZEALAND

Mr. LEACH. The second country I wanted to mention is New Zealand. I do think there are several things that ought to be stressed because I was a little surprised at your reaction to Mr. Gilman.

Just in a historical sense, we are dealing today with a challenge that existed 40 years ago that is still there in North Korea, an enemy and potential enemy.

With New Zealand, in a historical sense, we are dealing with a former ally and a close friend. Yet incredulously I don't think there is hardly an American who knows what the policy of the U.S. Government is to the ally that fought with us hand-and-hand in five conflicts in this century, that we don't have access to talk on a normal government-to-government relations.

There is all this discussion that the President of the United States is going to be meeting with the President of China and yet there is wrenching that he may meet with the Prime Minister of New Zealand and there is a question about whether we ought to solve the access problem with New Zealand.

You say this is going to be discussed at other levels of government and up on the Hill.

Let me tell you this as carefully as I can, Mr. Secretary, there is no Member of the U.S. Congress that I know of that is anything but in full support of our ship visitation policy toward New Zealand.

By the same token, there is no member of the U.S. Congress that I know of that supports this nonsense that we cannot talk with

New Zealand officials as we do Chinese, as we did Soviets, as we do South Africans, and any other country in the world.

It is the most uncivilized policy toward the most civilized country. This is a great opportunity, APEC, head of State to head of State, and trauma in New Zealand with an election the results of which is still a little murky because of its closeness.

Washington today should be announcing in the most unadulterated, unequivocal terms that we are going to end the lack of access issue and welcome New Zealand, whatever the results of this election, into the councils of mutual bilateral discourse.

It doesn't mean that you agree. But it does mean that you have civilized relations. I think APEC is a decent opportunity to do it.

For you to respond that you are not sure, that there are lots of levels of government that have to be talked with, I find that in comprehensible.

This is the time. It is well past due. So I hope in the strongest possible terms that you not only meet with whoever New Zealand sends as a representative, but that you make it very clear that whoever that is that from henceforth if the New Zealand foreign minister wants to meet with the Secretary of State or the New Zealand's Defense Minister wants to meet with the Secretary of Defense, it can happen without wrenching and groaning on behalf of a country that shares the Judeo-Christian tradition, let alone the British system of government.

Does that sound improbable?

NEW ZEALAND ELECTIONS AFFECT DISCLOSURE OF POLICY REVIEW

Mr. LORD. Let me make several comments. You and I have had discussions on this before. The New Zealand Government itself urged us not to be talking about the views of our policy during the election campaign so we have been under wraps.

Mr. LEACH. Excuse me, there is a policy review and there is political access. They are two different issues. I am not saying change the entire policy, although I do favor us changing some of our policy, but allowing normal high-level access.

Mr. LORD. That is part of our policy. I am just telling you why we have not announced the results of our review so far.

Mr. LEACH. Are you suggesting that the policy of New Zealand is for the United States to continue a limitation of access?

Mr. LORD. No, I did not say that.

Mr. LEACH. That is what you were implying.

Mr. LORD. I did not mean to imply it either, Mr. Congressman. We have many friendly relations with New Zealand. They were the first to say during the election campaign we don't want the U.S.-New Zealand relations to become an issue. We were respecting their wishes. Otherwise, I suspect our review would have been completed by now and we would have announced any changes in our policy.

Secondly, I am in the uncomfortable position where the President or the Secretary of State has not made a final decision to announce to you today what the results might be and the election in New Zealand is only a few days old.

Thirdly, I can assure you that your views and many others on the Hill about this policy, and you have been very unambiguous as

always today and I appreciate it, heavily influence our views. I cannot say that is the sole determinant, but I can tell you that the point is being conveyed on the contacts and access policy about your views and others and those are very important to us.

But I am not in a position to sit here today and preview what the outcome would be. That is not my decision. It is above my level. I can assure you these views are being very carefully looked at.

I can assure you that New Zealanders who have the greatest interest in this, are precisely the ones that asked us not to discuss this or have leaks or do anything that might become an issue in their election.

Finally, let me stress that we invited Prime Minister Bolger to Seattle. The Secretary has seen the Foreign Minister several times. That does not negate your basic point about access and contacts. I agree fully that that is an issue that deserves review, without predicting the outcome which I cannot do today in my position.

URGING REASSESSMENT OF NEW ZEALAND POLICY

Mr. LEACH. I appreciate what you are saying. I understand the issue from your perspective. I want you to know from a congressional perspective you are the spokesperson for the administration on Asian affairs. You are in a public hearing. APEC is before us. So I am obligated to present in the strongest way I can the perspective I feel.

I am hopeful that the administration will respond. I have some confidence that it will. I want you to know that because it is a smaller issue in the world landscape and because the administration is tied down by events in Somalia and Haiti, it is nonetheless an important one. Oddly enough, it becomes more important in the context that we may have not only economic opportunities symbolized by APEC in the region, but quite frankly the potential of some discord symbolized by Korea.

I think personally this is a time to, in an Asian sense, look to the future economically, shore up decent relations where they have historically existed; and to continue down a particular path of the status quo when it comes to New Zealand I find highly irrational.

I find the access part of the policy one for which there is no support anywhere that I know of in any realm of American public life. Now with the possible, and I only say possible, exception of some in the Defense Department who are sustaining a status quo kind of circumstance, but even there the greatest single desire to change our policy because no part of this American Government has more sympathy for New Zealand in terms of our history than the Defense Department, particularly the Navy.

I only want you to know that this is an issue that will keep coming up in the context of any representative in any public forum of Asia as long as it is unresolved as far as I am concerned. I feel that as an obligation to my own views of the world.

I think today that the circumstance surrounding them is becoming more important, not less important and the opportunity greater. In fact, one thing none of us really speculated a lot about is the idea, because we have seldom seen it in Western democratic government, in two-party systems of a kind of hung jury on an electoral result.

This week, and I mean by that the next few days, could be more interesting and opportunity oriented, a time to signal a change when it is quite clear you are not rewarding either political party, when the election is still somewhat incredulously in doubt.

I raise this in a timing sense because I think it is a very interesting circumstance. I would hope that when you leave this hearing you might be jogged to suggest within the departmental context that this might well be an interesting time to hint at some changes in policy because you are not affecting the election.

Most importantly, you are not responding to the winner or the loser. In theoretical terms, if former Prime Minister Lange's party prevails in this election, once the votes are recounted, it will look awkward to shift gears.

If the conservatives prevail, you might not want to be exactly in a position of suggesting it is because of their victory. So why not, when the jury is hung, announce a change? Anyway, that is my personal perspective that I would like to leave you with and ask that you might discuss it within the policymaking ends of government.

Mr. LORD. I appreciate your comments. I certainly will do so.

Mr. LEACH. Thank you, Mr. Chairman.

TONGAN SPECULATION IN SATELLITE SLOTS

Mr. GEJDENSON. Let me ask a couple of final questions, if I might. One question is regarding Tonga which has been trafficking in a limited number of orbital slots available for satellites. Tonga does this by filing for slots on a speculation basis, warehousing them and then selling them to the highest bidder.

This seems to be disrupting what was a consensus kind of operation on satellite access to slots. This will have an impact shortly on Pan Am, which spent a sizable amount of money on a satellite it plans to launch next May.

I am hopeful that you will take up these kinds of issues in Geneva and at the meeting in Seattle. Staff will be happy to get you more information on that.

EAST ASIAN ECONOMIC CAUCUS

Some people are talking about an East Asia economic caucus. Does it make sense to see the Asian community broken up in subgroups when building the caucus, or should we try to discourage these subgroups? What is your opinion?

Ms. SPERO. Our position on the EAEC, as it is known, is currently neutral. Earlier on the government was opposed to what was known as the East Asia Economic Cooperation group, which would have been an exclusive group. We would not have been involved nor would the Australians or the people from New Zealand.

That concept, it seems, which has been promoted by Prime Minister Mahatir has evolved somewhat, so it is now seen by the members of ASEAN as a caucus within APEC. We have said that we will keep a watching eye. We won't support it. We won't oppose it. We want to see what it would be.

One of the key criteria would be that it be an open, not a closed, group. Having said that, EAEC does not really exist. We would

have to see what consultations the Malaysians would want to have to bring this into existence.

POTENTIAL DANGERS OF INTEGRATED PACIFIC COMMUNITY

Mr. GEJDENSON. Going back to the economic opportunity and challenges faced by an organization of the Pacific community, when the EC brought in the southern tier countries like Spain and others, it first harmonized the number of environmental and labor standards.

There was more of a balance that existed before they tried to really form a single economic unit. With that formation, one of the things the United States worried about was whether they would start behaving as a block at GATT and other international economic forums.

My question is twofold: Can we really do a serious organization in the Pacific community that has some real economic benefit, understanding that even a preliminary set of discussions is good news without any question? But can we really get any agreement with a disparity in labor, environmental, capital laws, and all the other laws that affect the economies of Asia?

There is as big a disparity there as you can imagine on the globe, I guess.

Is this a tiger that we are creating that could then do some damage to us?

Are we furthering an organization that then may take positions at international trade agreements such as the GATT and others that may be hazardous to us? Or is it your final determination that we are better in the mix than out of the mix?

Ms. SPERO. I think you have raised an important distinction here between the European Community and APEC. APEC has nowhere near the kind of integration that exists in the European Community, nor would I expect to see it, frankly, in my lifetime. Maybe in Winston's, but not in mine.

Mr. GEJDENSON. That is a mathematical impossibility.

Ms. SPERO. So I don't think that we see it as a "community" in terms of harmonization, labor movements as the European Community does, producing common policies, or as I said earlier, in terms of the size of the bureaucracy.

Having said that, I do think there are some very important things that it can do. The economies in this region are more or less moving rapidly toward free markets. I think it is an opportunity for us to promote that. They are all export oriented. I think it is an opportunity for us to support and promote free trade and market access in the region.

So there are many things we can do to benefit from this organization but I do not see it at all moving in the direction of a European Community nor do we have any expectations that it would exactly, because of the diversity that you point out. I still think there are many benefits we can get from it.

Mr. LORD. I obviously agree with the response of the Under Secretary. I think we want to stay involved and keep organizations trans-Pacific to the extent possible.

On positions like the Uruguay round, which you mentioned, there really is pretty much unanimity; we see this only as a further

boost to the global trading approach. We made that very clear and it will be made clear in Seattle.

APEC AND CHINA-TAIWAN-HONG KONG RELATIONS

Mr. GEJDENSON. How does the APEC conference affect the relationships between Taiwan, the Mainland, and Hong Kong? Hong Kong is going through a difficult period as it gets ready to become part of the Mainland. Apparently the President of Taiwan was not invited to the President's meeting, is that correct?

Mr. LORD. Each member has selected a representative it chose to send to Seattle. Taiwan selected Vincent Siew, a very distinguished economic minister and the Hong Kong Government chose the financial secretary.

Mr. GEJDENSON. Is that avoiding a conflict?

Mr. LORD. You would have to ask them. Each of these members chose who they wished to send. One of the achievements, as Under Secretary Spero said, is that these three Chinese economies are members of APEC, so it shows at least in that realm they have some common interests.

Whether this will help ease relations among these entities in the future remains to be seen. Again, this is an economic conference not a political one.

Mr. GEJDENSON. Does Taiwan generally participate in the various Asian activities or does China generally block their participation outside of APEC?

Mr. LORD. I think it is fair to say in the economic area they participate quite forcefully and freely and China and Taiwan have reached a modus vivendi in organizations like APEC. I think they both wish to get into GATT. That looks possible at some early time. I think on key Asian economic issues, they are both engaged.

Mr. GEJDENSON. We thank you very much and we look forward to hearing from you at the conclusion of the conference.

Thank you. The hearing is adjourned.

[Whereupon, at 3:15 p.m., the committee was adjourned.]

PREPARED STATEMENTS

Statement by Congresswomen Maria Cantwell Before the House Foreign Affairs Committee November 15, 1993

Thank you Mr. Chairman and welcome Ms. Spero and Mr. Lord.

The Asia-Pacific Economic Cooperation conference is truly a historic opportunity. An opportunity to solidify relationships and enable members to share perspectives on regional trade, investment and political issues.

It is with a sense of pride and deep awareness of the significance of what the Asia-Pacific Economic Cooperation conference means for the future of our country that I participate in the hearing today. Pride, because the annual APEC ministerial meeting will be held in Seattle, Washington, November 17 through 19. The United States will host and chair that meeting of 750 delegates from the 15 Pacific Rim economies, which are members of the organization.

The choice of Seattle as the location for this year's ministerial meeting is entirely appropriate. Washington state is the beachhead for trade with Asia and the Pacific Rim. Seattle is a major port participating in U.S. trade with the Asia Pacific region, and Washington state is the most trade-reliant state in the nation. The people, communities and businesses of Seattle have long recognized the importance of these economic and

political relationships. When the APEC delegates arrive in Seattle, they will know that they arrive as partners in a vital economic undertaking.

The Asia-Pacific Economic Cooperation conference gives the United States a wonderful opportunity to present our vision of the future. A vision of closer economic and political cooperation where trade and geopolitical disputes are resolved through honest dialogue and open debate.

Fully one half of APEC's members represent the most successful economies in the world. Clearly, this dynamism and APEC's progress in focussing on trade liberalization and establishing formal and informal networks for dialogue suggest we can work together to resolve some of the most important issues of the day.

I applaud the President for convening the leaders summit and for seizing this opportunity to show our Pacific friends that the United States recognizes the dynamism of the economies of the Asia-Pacific and the importance of their friendship.

The United States has a vested interest in helping to make APEC an effective regional economic organization. Once again, I applaud the Administration for seizing the opportunity presented by APEC and look forward to the testimony today from two key Administration policy makers.

TESTIMONY BY JOAN E. SPERO
 UNDER SECRETARY FOR ECONOMIC AND AGRICULTURAL AFFAIRS
 DEPARTMENT OF STATE
 BEFORE THE HOUSE FOREIGN AFFAIRS COMMITTEE
 NOVEMBER 15, 1993

Mr. Chairman, distinguished members of the committee, ladies and gentlemen, thank you for inviting me and Assistant Secretary Lord to speak to you today on U.S. interests in the Pacific Rim and the historic meetings this week of the Asia-Pacific Economic Cooperation Forum, or APEC.

The Asia-Pacific region, the fastest growing, most economically dynamic region in the world, is critical to America's economic future. The Clinton administration is determined to seize the opportunities and meet the challenges that the region, and the U.S. as a Pacific nation, will face in the 21st century. That is why we are pleased that the U.S. will host the Fifth APEC Ministerial, to be chaired by Secretary Christopher in Seattle November 17-19. That is why President Clinton has called for an unprecedented meeting of APEC economic leaders following the ministerial meeting. I am pleased to have this opportunity to outline for you today our vision of our future in the Pacific, and how APEC fits into our strategy for building the architecture of global economic relations in the post Cold War world.

Global Economic Engagement: Key to Domestic Economic Vitality

President Clinton has said that domestic economic renewal is his top policy priority. At home, he has sought to renew American competitiveness by reducing the budget deficit and shifting government spending from military expenditures to civilian technology. Abroad, he has sought access to foreign markets for competitive U.S. goods and services. The President understands that more than ever before, our prosperity depends on our engagement in the global economy. Strong and open markets for U.S. exports are essential for economic renewal at home. Every billion dollars in U.S. exports creates about 20,000 good American jobs -- jobs that pay about 17 percent more than the average wage. Between 1988 and 1992, almost 60 percent of real growth in the U.S. economy came from export expansion. Increased exports are the best job creation program we have. That is why President Clinton has placed economic policy at the heart of our foreign policy. That is why the Department of State is giving new priority to building sound economic relationships with our trading partners, and to assisting U.S. business seize global opportunities.

The Pacific Rim: Key to Domestic Economic Renewal

Given the new importance of economics to our interests both at home and abroad, there is no region more important to the United States than the Pacific Rim. In the past decade, the region has seen the most dynamic economic growth in the world. Thailand, Indonesia, Singapore, Korea, and Taiwan have grown on average over 7 percent for the last 5 years. The ASEAN economies, together, are growing at three times the rate of OECD members -- six times faster than world output in 1992 alone. China has grown over 9 percent per year for the last decade. China's southern and coastal areas are enjoying a market-oriented manufacturing boom and are increasingly integrated with the economies of Hong Kong and Taiwan through informal trade and investment links. Korea, one of Asia's greatest success stories, has moved from subsistence to advanced manufacturing in a single generation.

Reflecting this dynamism, over half of our total world trade today is with the Pacific region, half again as much as our trade with Europe and three times our trade with Latin America. More than 2.5 million U.S. jobs now depend on exports to East Asia.

The rapid growth of the region holds terrific promise for even more job-creating exports of U.S. goods and services. In the year 2000, the GNP of the fifteen member economies of APEC will exceed that of the G-7 countries. US trade with the Asia Pacific will be double that with Europe. In fact, the IMF estimates that fully half of world growth in the decade of the nineties will be in the Asia-Pacific region. Economic growth provides great economic opportunity. Growth has given rise to an Asian middle class and a large, new consumer market. Burgeoning growth and ambitious plans for future development also have created a huge demand for infrastructure. China, Taiwan, and Hong Kong alone are planning to spend over 500 billion dollars on infrastructure improvements by the year 2000. Asia will need to spend an estimated 1 trillion dollars to meet increased energy demands over the next 20 years.

Challenges

While we recognize the opportunities, we are keenly aware that the Asia-Pacific region also poses some of our greatest economic challenges. It is home to many of our toughest competitors. A significant part of our global trade deficit is with the region. Not only does Asia export a lot to us, it is also a growing center of technological innovation and entrepreneurship -- trends that the U.S. can ill afford to ignore if we are to compete in the industries of the 21st century.

We must meet this challenge, as President Clinton has stated, by embracing change and creating the jobs of tomorrow, not resisting change, in the vain hope of preserving the economic structures of yesterday. We need to export more. We need to increase our presence in these rapidly growing and increasingly sophisticated markets to meet, and beat, our competitors. To do this, U.S. exporters and investors must have market access. That is why the Clinton administration is aggressively promoting the development of market-oriented economies, open to international trade and investment, in the Pacific Rim. We are pursuing this objective on a global, bilateral and regional basis.

The maintenance of a strong open world trading system is fundamental. For far too long, we have been trying to bring the GATT Uruguay Round to a successful conclusion. The negotiations today are in a crucial stage. For us, the December 15 deadline is final. The Clinton Administration is committed to achieving a successful conclusion to the round this year. But we cannot do it alone. Asian-Pacific nations, more than many others, have a major stake in the successful outcome of the Round. The "Asian miracle" of rapid export-led development was possible only in the context of a strong and open world trading system. None of the remaining trade-offs will be easy for any nation. But time is running out. We must all make the hard choices now to secure the certain benefits of more open trade tomorrow.

Our approach also includes vigorous, and essential, bilateral efforts to convince our trading partners to tear down barriers to trade and investment. We are encouraging the market-oriented regulatory reform now underway in many Asian economies. We also intend to seize the tremendous opportunities for mutual benefit that exist by exploring possibilities for enhanced economic cooperation. Our Framework for a New Economic Partnership with Japan, announced in July, is a good example of this new approach. Our new Dialogue for Economic Cooperation with South Korea is another.

Regional economic cooperation is another key to building economic relations in the 21st century. Passage of the North American Free Trade Agreement is vital to strengthening the U.S. both at home and abroad. NAFTA will give our exporters access to what will be the world's largest free trade area, comprising about 370 million people. It will secure the advantages that have boosted U.S. exports to Mexico by more than 200 percent since 1986, creating 400,000 jobs. It will create even more high wage, high skill jobs, and enhance our ability to compete globally. Our positive decision on NAFTA will confirm to the world that the U.S. is ready to lead and compete in the changing global economy.

APEC

In the Asia Pacific region, APEC holds special promise for building regional economic cooperation. APEC is a forum for the 21st century. It is organized around economic, not security, interests. The evolution of APEC -- founded just four years ago as an informal dialogue of twelve member economies -- reflects the powerful, market-driven trends underway in the region, trends which are fuelling economic growth and integration.

This week's meetings in Seattle are a watershed. The leaders of the fifteen APEC member economies, along with trade, foreign and economic ministers, will gather to consider the economic future of the most economically dynamic region in the world. Business leaders from throughout the region, those who are building the Asia-Pacific market every day, will meet in Seattle as well.

Ambassador Lord will describe APEC to you in more detail. I will outline here briefly what we see as the chief components of the week in Seattle: the Ministerial, the Leaders Meeting, and the message that we hope Seattle will bring to the American people.

At the Ministerial we will work to strengthen APEC as an institution. The Ministers will review a proposed Trade and Investment Framework Declaration, which will establish an APEC trade and investment committee. The committee will initiate consideration of trade and investment policy in APEC. We hope that it will provide an new APEC voice on global issues. The Ministers also will review the recommendations of the APEC Eminent Persons Group. The EPG, at the request of the Ministers, worked this year to lay out a bold vision for the future of APEC and economic cooperation in the region. The Ministers will also review the issue of increased membership in APEC.

The Ministers will discuss ways to bring the private sector -- the driving force behind the phenomenal economic development in the region -- closer to APEC, to ensure that APEC effectively addresses real world problems. Much of APEC's most crucial work in this respect has been quietly carried out in the day-to-day activities of its ten working groups. Each working group invites interested businesses from its participant economies to share their experiences and offer solutions to common problems. APEC working groups are surveying transportation bottlenecks, working to standardize trade data and promote trade, sharing insights on training and development of human resources and promoting environmentally sound technologies. Business executives have briefed APEC officials on ways to rationalize telecommunication infrastructure. At the first APEC customs symposium to be held just prior to the Ministerial in Seattle, customs authorities

will exchange views with private sector exporters, shippers, carriers and insurers. We hope this exchange will not only disseminate information but also encourage improvement in customs regimes.

These collaborative efforts with the private sector are creating new business opportunities as APEC members discover the benefits of new technologies, products and management styles. U.S. participation in and support for APEC allows U.S. business to help shape tomorrow's infrastructure in the region.

The U.S. Future in the Pacific: The APEC Leaders Meeting

The APEC Ministerial will be followed by the first ever meeting of economic leaders from the region. President Clinton understands the enormous potential, as well as the considerable challenges, that we face in the Asia-Pacific region. He is keenly aware of the importance of the region to the U.S. economic future. It is for this reason that he proposed the unprecedented gathering of Asia-Pacific leaders in Seattle.

The meeting will be an historic opportunity for the leaders of the most dynamic and most promising economies in the world to begin to develop a vision for the region's future. In an informal setting, with no fixed agenda, the President hopes to hear from the other economic leaders their views of the greatest opportunities and challenges facing the region in the next century. The leaders will discuss ways that the APEC economies can make the most of the opportunities we share to increase growth and trade. The meeting will also, we hope, lay the foundation for cooperation in addressing the major economic challenges facing the region. At the conclusion of the meeting, we hope that the leaders will be able to outline the broad foundation of a common vision for the future of the region.

In conclusion, Mr. Chairman, the APEC economic leaders meeting is a reaffirmation of the U.S. intention to remain a leader in the Asia-Pacific region, a part of the world which is critical to America's future. We hope that next week's pivotal events in Seattle will mark the beginning of a new appreciation among the American people of the key role of international markets to our domestic prosperity and the future of the U.S. as a Pacific nation.

Thank you.

Testimony by Winston Lord
Assistant Secretary of State for East Asian and Pacific Affairs
Before the House Foreign Affairs Committee
November 15, 1993

U.S. SUPPORT FOR ASIA PACIFIC ECONOMIC COOPERATION (APEC)

Mr. Chairman, Distinguished Committee Members, Ladies and Gentlemen,

Thank you for inviting Under Secretary Spero and me to appear before the Committee. Your interest and support for the Asia Pacific Economic Cooperation (APEC) process has been well demonstrated by your approval of House Concurrent Resolution 113.

That resolution encourages U.S. leadership in APEC and instructs the Administration to seize the opportunity presented by the U.S. chairmanship to reaffirm our commitment to an emerging economic organization that promotes freer trade and investment and thus greater prosperity in the Asia Pacific region. For the past year, we have been working steadily in Asian capitals, in Washington and in Senior Officials Meetings in Williamsburg, Honolulu, and Seattle to do just that.

Under Secretary Spero, in her statement, has discussed the Leaders Meeting to be hosted by the President, as well as the relationship between our goals in APEC and renewal of our domestic economy. I propose to offer some additional detail on

APEC's work, objectives, and development. I will also sketch out what we hope to accomplish at the Ministerial meeting to be chaired by Secretary Christopher November 17-19.

APEC's 15 member economies are Australia, Brunei Darussalam, Canada, the People's Republic of China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Republic of the Philippines, Singapore, Chinese Taipei (Taiwan), Thailand, and the United States. There have been four previous ministerial meetings -- Canberra, November 1989; Singapore, July 1990; Seoul, November 1991; and Bangkok, September 1992. APEC's chair rotates among its member economies. The United States assumed the chair following the Bangkok meeting. Next year Indonesia will take the lead.

In two days, Secretary of State Christopher will open the first U.S.-hosted APEC Ministerial meeting in Seattle, culminating our year of leadership. We chose Seattle for this important occasion to dramatize that America is a two-ocean country with a vital interest in the Pacific. Washington's ports, of which Seattle is the largest, handle nearly one-tenth of all U.S. global trade, one-fifth of U.S. imports from Japan and one-sixth of U.S. imports from China.

The APEC member economies form a vital market for the

United States. In 1992 we exported \$219 billion dollars in goods to the region, which supported about 4 million jobs throughout America. At the same time, the United States remains the major market for most of APEC's member economies. In 1992, U.S. trade with APEC was worth \$534 billion dollars representing almost half of all U.S. exports and nearly 60 percent of U.S. imports.

The United States views APEC as the most promising avenue for enhancing economic cooperation, a goal in the post-Cold War era as essential to regional stability as security and democratization.

According to the declaration adopted by the Seoul Ministerial in 1991, APEC's basic objectives are to sustain growth and development of the region, enhance the gains from increasing interdependence, strengthen the open multilateral trading system, and reduce barriers to trade and investment in a manner consistent with GATT principles.

In the few short years of its existence APEC has made considerable headway. APEC's informal group on Regional Trade Liberalization has produced results in customs cooperation, creating an electronic tariff database, facilitating investment, and easing administrative aspects of market access.

APEC's ten working group programs have achieved various successes. We are seeking greater focus this year through preparation of vision statements which provide clearer directions for future work. Another significant development during our year of leadership of APEC was the establishment of the APEC Secretariat in Singapore, with a budget to fund work projects and administrative expenses. Even though it has been in existence for less than a year, the Secretariat is already making an important contribution in supporting and coordinating APEC activities.

As Undersecretary Spero has described, President Clinton will host an informal meeting of APEC economic leaders immediately following the Ministerial on November 20. The President sees this historic meeting as a forum to take a broad look at economic challenges and opportunities facing the region and at ways APEC can enhance cooperation. This event will underline the huge stakes for America in the Asia-Pacific region and our determination to stay actively engaged. The leaders will be discussing their vision for the Pacific Community in the 21st century, their shared goals and objectives, and the means, including APEC, to advance together.

The Setting for Seattle

When the Fifth Asia Pacific Economic Cooperation Ministerial draws to a close, the United States, as Chair, will be expected to sum up the meeting's accomplishments.

From an American perspective, we believe the Seattle conference will illustrate three broad themes:

First, to the economies of the Asia-Pacific region, it will demonstrate that the United States intends to be deeply engaged in the Pacific; and that we will continue to promote free trade and open markets in the region and the world.

To the American people and the American business community, it will highlight the tremendous opportunities in the Asia-Pacific region. No area of the world is more central to our domestic economic strength, or more lucrative for American jobs and exports.

And finally, our chairmanship of APEC will reaffirm our support for the organization and our determination to strengthen it in collaboration with others.

President Clinton views the Asia Pacific region as one of promise and dynamism, where American interests are very much at stake. It contains the world's fastest growing economies. Its security environment is generally stable. Its societies are moving toward greater freedom. Of course, there are problems as well as opportunities -- our large trade deficits, tension on the Korean Peninsula, residual repressive regimes.

When President Clinton outlined his vision for the Pacific in two major speeches last July, he called for the creation of a community of nations built on shared strength, shared prosperity, shared commitment to democratic values, and regional approaches to global problems. The emphasis on "shared" is fundamental because we are describing a community. We have our own ideas. We will show leadership as a great nation. But this community must be built in cooperation with others. We seek their views. Together over decades, we can shape a community in a spirit of consensus and partnership.

This community will promote free markets and therefore, prosperity for all. It will promote security through regional dialogues where potential enemies reduce tensions by talking to

each other directly rather than building up blocs against a common threat. It will promote open societies, not in terms of imposing American values on other cultures and traditions, but in recognition that in an age of computers, fax machines and cellular telephones, with growing exposure through investment, trade and tourism, societies must be open politically as well as economically. And finally, it will address problems of a global nature -- like the environment, narcotics, trade, refugees and AIDS -- that have a strong regional dimension.

APEC's Future

The APEC process can be a crucial element of this community. Despite its solid progress to date, we must resist the temptation to rest on our laurels. Now is the time for APEC to begin taking concrete steps to address regional economic problems for the benefit of all APEC members. We believe that the organization can concentrate its efforts in several key areas:

- o continue efforts to strengthen trade and investment liberalization at the regional level;
- o work to improve regional infrastructure in the telecommunications, transportation, and energy sectors;

- o enhance programs to support human resources development;
- o place greater emphasis on environmental issues and sustainable development;
- o harness more effectively the energies of the private sector for the region.

APEC is not a trading block but a building block for the world system. This principle will be underscored in Seattle. The GATT Uruguay Round holds out an enormous opportunity to open markets and spur growth around the world. All our economies have benefitted from an open multilateral trading system, none more than the economies of Asia and the Pacific. The Administration is firmly committed to a successful conclusion of the Round, on deadline, by December 15th.

APEC has consistently worked to move the Uruguay Round forward. This year's Ministerial meeting comes at a critical time, just weeks before the deadline. None of the remaining trade-offs will be easy for anyone -- but the great trading economies must shoulder their responsibilities.

The centerpiece of the Seattle Ministerial will be the proposed Declaration on an APEC Trade and Investment Framework and the associated work program. The Framework will set the directions for APEC's future work on trade and investment

liberalization. The new Trade and Investment Committee called for in the Framework will forge a coherent APEC perspective and voice on global trade and investment issues. The Committee will pursue opportunities to liberalize and expand trade, facilitate investment, and improve the flows of goods, services, capital and technology within the region.

The Seattle Ministerial will also review the Report of the Eminent Persons Group. This group of distinguished private citizens from APEC members was charged to sketch a bold vision for the future to stretch the horizons of APEC. Vigorous discussion of the report will undoubtedly stimulate new ideas on the organization's role in regional and global trade liberalization.

Regional Infrastructure

APEC is the first regional organization founded in the information age. Given the diversity of the region, and its vast expanse, encouraging modern, efficient and compatible telecommunications and transportation systems should be high priorities for APEC and its members. In the coming years, we will see dramatic growth in the linking of electronic media in the region and around the world. APEC should develop frameworks which will serve to shrink large distances and spur

the flow of goods, information, people and capital in the region. Similarly, efficient, integrated transportation systems will enhance regional growth and contribute to an open multilateral trading system.

Thus one of the initiatives we will examine in Seattle calls for a "Pacific Network" which would include the development of an Asia-Pacific "information superhighway" using fiber optics and satellite technology; harmonization of telecommunications and customs networks; streamlining of immigration and customs procedures; and promoting stronger and more flexible transportation links for both people and goods.

Regional energy cooperation should also be a significant component of APEC's work program. Rapid economic growth in the Asia-Pacific region has generated huge demands for energy. Key policy areas for attention in APEC include: reducing impediments to the efficient production, supply and distribution of energy resources; reducing impediments to efficient energy consumption; minimizing adverse environmental consequences of energy production and use; facilitating the freer flow of energy resources and energy-related products and services; mobilizing local and global finance for energy sector projects; promoting the flow of information; spurring technology transfer; and developing joint research and technical skills in the region.

Human Resource Development and Environmental Concerns

Other areas that APEC must address include human resource development and the environment. The people of the Asia-Pacific region are its most important single asset, the engine for rapid economic growth. APEC has devoted significant attention to cooperation on human resources development, but continued priority is warranted. Important areas for development include: basic statistical information; the supply and quality of educators and managers; worker training for high technology industries; and programs to help workers adjust to changing trade patterns, industrial restructuring, and other effects of rapid growth, technological breakthroughs and the increasing globalization of production.

Environmental degradation poses a growing threat to the physical health, economic prospects, and social well-being of the people in the region. The impact can be measured in graphic human and material terms. We cannot escape the effects of air and water pollution, global climate change, biodiversity loss, and the depletion of resources.

Both the causes and the solutions to environmental challenges transcend national borders. APEC is already doing some valuable work in this area in the Working Groups on Energy, Marine Resources Conservation and Tourism. But we can do much more. APEC can draw together existing national efforts

and identify new directions for regional cooperation. It could, for example, take the lead in following up on the UNCED Agenda 21 Oceans Chapter in this region. It could identify key problem areas and help disseminate environmental technology, goods, and services. It may be useful to launch an Asia-Pacific dialogue, perhaps at the Ministerial level, on environmental issues.

The Private Sector

In the Asia-Pacific region, the private sector has played the leading role in stimulating business growth, increasing investment, creating jobs and introducing new technology. It is important that APEC engage the private sector to the fullest extent possible so that its activities are results oriented. We will continue to work closely with the business community to see to it that APEC facilitates its efforts.

In these, as well as other aspects of APEC's work, the region's private sector must be actively engaged. The business community is a potential beneficiary of all our endeavors. We must solicit its views on trade and investment as well as on specific steps APEC can take to improve the region's transportation and telecommunications networks, and address the region's growing demand for energy resources.



3 9999 05903 794 3

Conclusions

In the post-Cold War era, the Asia-Pacific region will be a primary source of new ideas, funds, and know-how to lead the world economy into the next century. The APEC economies possess the economic strength, energy, creativity, technology, and human resources, not only to bolster our own growth but to trigger world-wide economic prosperity.

The APEC members can provide new leadership for global trade liberalization at a time when many seek to meet domestic challenges through protectionist policies. The progressive elimination of trade and investment barriers, through regional efforts and through the Uruguay Round, will serve to integrate the Asia-Pacific market. This, in turn, will promote private sector and sustained economic development.

APEC is a promising vehicle to advance the interests, and increase the well-being, of all the citizens of the Asia-Pacific region. It has begun well. It needs to do more, consonant with the collective views of its members. Some opportunities will be seized in Seattle. Others will be explored during the coming year. Working with our Asia-Pacific partners, the United States will strive to lift the horizons of the peoples throughout the region.



ISBN 0-16-043383-5



90000



9 780160 433832